BlackRock

RESPONSE TO MAS CONSULTATION PAPER (June 2020)
Proposed Guidelines on Environmental Risk Management (Asset Managers)

Please note that the below responses will be submitted electronically to the MAS via this link before the deadline of 7 August 2020:
https://eservices.mas.gov.sg/survey/se/0DE6A2EA10103643

Question 1: MAS seeks comments on the entities and business activities that are in the proposed scope of the Guidelines.

Introduction

BlackRock, Inc. (BlackRock) is pleased to have the opportunity to respond to the MAS' consultation paper on Proposed Guidelines on Environmental Risk Management (Asset Managers) (the "**Guidelines**").

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs. We are supportive of the aim of enhancing the integration of environmental risk considerations in asset managers' investment decisions, in order to in turn enhance the resilience of the funds/mandates that they manage.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of MAS on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Before we proceed with our responses, we would first take this opportunity to set out a few key points, which will also provide context for our submissions.

Investment risk vs enterprise risk

At the outset, a clear distinction needs to be made between environmental risks at (a) the enterprise level, i.e. the risks that the asset manager as a business undertaking (just like any other enterprise) may be exposed to; and (b) the portfolio level, i.e. the risks that each fund or portfolio managed by the asset manager may be exposed to. These are very distinct concepts.

We note that in Paragraph 1.1 of the Guidelines, the MAS states the following: "*The Guidelines aim to enhance the resilience of funds (including REITs) and segregated mandates (hereinafter collectively referred to as "funds/mandates") that are managed by asset managers, by setting out sound environmental risk management practices that asset managers can adopt.*" We are fully supportive of this aim which makes clear that the Guidelines are concerned with environmental risk as investment risk at the portfolio level, and not enterprise risk affecting the asset manager. We urge the MAS to be mindful of this important distinction as a guiding pillar when revising the entire set of Guidelines. This is a concept we will keep returning to in our responses.

We strongly believe that it is important to keep these concepts distinct in order not to dilute the aim of the Guidelines and also in order not to cause confusion to the industry when trying to implement and demonstrate compliance with the Guidelines' requirements.

"Integrating" versus "adding" sustainability as a function

It is important to understand that sustainability risk is simply a subset of risks that an investment portfolio may be exposed to, similar to other risks such as market risk, credit risk and liquidity risk. We believe the appropriate way to incorporate sustainability into investment and risk management processes is by integrating it into the existing processes and controls, rather than requiring it to be added as a stand-alone function or input. The latter approach would not be appropriate as investment risk needs to be looked at holistically in the context of each strategy in question. We therefore encourage the MAS to view environmental risk through this lens for the purpose of the Guidelines.

As the MAS points out in Paragraph 3.2 of the Guidelines, asset managers are already required under Regulations 13B(1)(a) and 54A of the SF(LCB)R to have in place a risk management framework (that identifies, addresses and monitors the risks associated with assets under management) which is appropriate to the nature, scale and complexity of the assets. Typically, in such a risk management framework, investment risk will primarily be considered by each individual portfolio management team and then by risk teams from a portfolio and operational risk perspective as a second line of defence. Compliance and audit teams then act as a third line of defence to ensure the relevant teams have put in comprehensive risk processes and are adhering to them. The primary assessment of sustainability risks should therefore be carried out by investment and risk professionals. We believe this type of structure is not unique to BlackRock but adopted in varying forms by most asset managers.

We therefore make two important submissions here. Firstly, we encourage the MAS to view environmental risk not in isolation but in light of investment risks as a whole, such that relevant requirements in the Guidelines will be designed to integrate relevant risks into an asset manager's existing processes. Secondly, for global asset managers like BlackRock it is essential that we are able to refer to the group level frameworks, policies and processes we already have in place in order to demonstrate compliance with the MAS' Guidelines. This includes our governance, investment/risk management and stewardship frameworks which have been designed to be applicable across BlackRock's businesses, and into which we have already made significant efforts to integrate sustainability considerations. We urge the MAS to make this point explicit throughout the Guidelines, that asset managers can reference group structures and policies (in particular, as also mentioned in our responses to Questions 2 and 3, references to the "board" and "senior management" in the Guidelines should not be confined to those of the MAS regulated entity).

The role of asset manager vs asset owner

We take this opportunity to comment on Paragraph 2.5 of the Guidelines, where the MAS states the following: "*Besides implementing robust environmental risk management policies and processes, asset managers can play a key role in the transition towards an environmentally sustainable economy by channelling capital through their green investment activities….. Engaging in green investment activities would also mitigate reputational risk for asset managers.*"

BlackRock fully supports the expressed aim of the Guidelines, which is to build resilience into managed assets against material environmental risk. Indeed this is consistent with BlackRock's investment conviction that incorporating sustainability-related factors into investment decisions is likely to provide better risk-adjusted returns to investors over the long-term. From BlackRock's perspective, incorporating ESG insights into our investment decision making is consistent with an asset manager's fiduciary duty to manage the assets of our clients, the asset owners, in their best interest and in a manner which is faithful to the stated objectives of the fund or mandate in which they have chosen to invest.

The suggestion then, in Paragraph 2.5 of the Guidelines, that asset managers can "channel" capital, raises concerns as this is inconsistent with an asset manager's fiduciary duty; is not our position to channel assets but rather the decision belongs to the asset owner. Similarly, we consider the reference to an asset manager's reputational risk is inappropriate here; as a fiduciary, an asset manager's reputation should not be a primary motivating factor to the decisions we make on behalf of our clients.

Whilst we appreciate that in Paragraph 1.2 of the Guidelines the MAS states that the Guidelines shall not prohibit or restrict an asset manager from complying with and discharging its fiduciary duties and other legal obligations to its customers, in order not to create any ambiguity or confusion around the fundamental fiduciary principle, we strongly suggest deleting references to asset managers "channeling" capital and to asset managers making investment decisions to mitigate their own reputational risk.

We wish to draw the MAS' attention to the proposed rule issued by the US Department of Labor's ("DoL") on 23 June 2020 regarding the consideration of financial factors in selecting plan investments (the "DoL Proposal"). Notwithstanding that BlackRock has expressed concerns about certain aspects of the DoL Proposal, we are in full agreement with the DoL's position that ERISA fiduciaries must always put first the economic interests of the plan in providing retirement benefits and cannot sacrifice investment returns or take on additional risk to promote goals unrelated to the financial interests of the plan participants and beneficiaries. We highlight this point as a prominent example where a manager's fiduciary duty is additionally codified into regulatory obligations, which further underscores the importance of ensuring the Guidelines do not impose (or appear to impose) requirements that conflict with the fiduciary principle.

Please see:

- the DoL Proposal: https://www.dol.gov/newsroom/releases/ebsa/ebsa20200623
- BlackRock's response: https://www.blackrock.com/corporate/literature/publication/dol-financial-factors-in-selecting-plan-investments-073020.pdf

Response to Question 1

We do not have issues with the proposed entities and business activities that are in the proposed scope of the Guidelines.

In Paragraph 1.2 of the Guidelines, we welcome the express acknowledgement by the MAS of the evolving nature of environmental risk management and that "*asset managers should implement these Guidelines in a way that is commensurate with the size and nature of an asset manager's activities, including the investment focus and strategy of its funds/mandates*". We believe this last point is crucial as the approach to managing environmental risk must be tailored to the specific strategy and portfolio in question.

We believe it is important for the MAS to provide further clarity here on whether and to what extent the Guidelines apply in the context of passive strategies. We use the term "passive strategies" to include index strategies (where the fund manager has no ability to change portfolio construction above and beyond replicating exposure to a particular security and its weighting in the underlying index) and rules-based investment strategies which are built around specific quantitative factors (for example, price momentum or value-based strategies) where the fund manager follows an explicit strategy that limits what factors and potential inputs their investment decisions are based on. With the exception of stewardship obligations, we consider the Guidelines' requirements relating to Research and Portfolio Construction and Portfolio Risk Management (together with the associated disclosure requirements) are inconsistent with the nature of passive strategies. We strongly suggest the MAS to be explicit that, when managing passive funds/mandates, asset managers are able to exercise their judgment and determine that environmental risk considerations are irrelevant to the portfolio construction and risk management processes with the exception of stewardship and consequently any associated disclosure obligations will not apply.

In Paragraphs 1.4 and 1.5, it remains unclear how the Guidelines will apply where the MAS-regulated entity acts only as a sub-adviser with delegated discretion over a fund/mandate or a part thereof. In such circumstances, the sub-adviser as delegate must adhere to the guidelines and requirements imposed upon it by the primary manager, including any relevant regulatory requirements which the primary manager is subject to in its home jurisdiction. Accordingly our view is that the Guidelines should not apply where the Singapore entity is acting as a sub-adviser in order to avoid the burden and duplicity of potentially conflicting regulatory requirements. Paragraphs 1.4 and 1.5 of the Guidelines should therefore be amended to make this explicit.

We recognise that Section 2 of the Guidelines is primarily scene setting and background material, and hence we do not have major concerns. We note however that Paragraph 2.3 seems oddly out of place; whilst the other paragraphs discuss environmental risk as it impacts funds/mandates (which we see as directly relevant to the Guidelines), Paragraph 2.3 talks about reputational risk to asset managers. As discussed above, our view is that an asset manager's own reputational risk should not be a primary motivating factor to the decisions we make on behalf of our clients and it appears to us that this may be another example of the conflation of portfolio-level investment risk with entity-level enterprise risk. We therefore recommend the MAS delete this paragraph in order not to cause confusion around the Guideline's objectives (note that this may necessitate revising Diagram A as well). Consider instead discussing reputational risk to investee companies under Paragraph 2.2.

Question 2: MAS seeks comments on the proposed responsibilities of the Board in overseeing environmental risk management, including its role in approving the environmental risk management framework and policies.

As we discuss in our response to Question 1, we would first note that it is generally not within the corporate board's remit to directly manage risks of investment portfolios. Although individual fund boards have more involvement with products, the approval of specific risk management frameworks at the portfolio level sits more squarely within the remit of portfolio management and risk management teams to decide. We therefore recommend refraining from references to the board/board committee "managing" environmental risks of funds/mandates. Instead, the board should have a role in overseeing the integration of environmental risk considerations into the investment decision making process. We urge the MAS to bear this in mind when articulating the board's role. For example, in Paragraph 3.4 of the Guidelines, we do not agree that it is the board's role to be responsible for training and capacity building of investment and risk teams' expertise.

We believe the MAS should take a principles-based approach when articulating the board or senior management's role in the Guidelines. We do not see merit in overly prescriptive requirements as each asset manager will have different governance structures and different investment/risk processes in place.

As mentioned in our response to Question 1, it is important that large asset managers are able to rely on our global framework to satisfy the Guidelines. We therefore urge the MAS to make it clear that references to "board" and "senior management" in Section 3 of the Guidelines are not confined to the board or senior management of the MAS-licensed entity in Singapore.

Question 3: MAS seeks comments on the proposed responsibilities of senior management in overseeing environmental risk management, including its role in developing an environmental risk management framework and policies, regularly reviewing their effectiveness, and allocating adequate resources to manage environmental risk of the assets managed.

We refer to our response to Question 2 above and reiterate the importance of being to rely on global frameworks and processes to demonstrate compliance with the Guidelines. Again, we would welcome the MAS setting this out clearly in the Guidelines.

As a general comment, we are concerned that the responsibilities imposed on senior management in Paragraph 3.5, as currently drafted, fail to acknowledge that asset managers are already operating with an existing risk management framework. For example, references to senior management being responsible for "developing", "implementing" or "establishing" processes specific to environmental risk are inconsistent with the concept of integration. We refer to the discussion in our response to Question 1 ("Integrating" versus "adding" sustainability as a function) and urge the MAS to revise this section to better reflect integration.

To give an example to provide an international perspective, we note that in the UK, the Climate Financial Risk Forum on 29 June 2020 published its guide to climate-related financial risk management (the "CFRF Guide", which can be found here: https://www.fca.org.uk/transparency/climate-financial-risk-forum). In its Risk Management Chapter, the CFRF Guide says this: "When assigning senior management responsibility for climate risk, consider where responsibility for other financial risks is managed and align with that responsibility." We consider this a sensible approach which could be taken for the Guidelines as well.

Finally, there are a number of places in Section 3 of the Guidelines where we are concerned that asset manager level enterprise risk is being confused with portfolio investment risk. The current language of Paragraph 3.5 suggests this. Another example is Paragraph 3.6 which contains an obligation for senior management to update the board on material environmental risk issues in a timely manner. In our view, it is not the role of senior management or board to look at portfolio level risk – the investment and risk teams are best placed to do so.

Question 4: MAS seeks comments on the proposal for asset managers to designate a senior management member or a committee to oversee environmental risk, where such risk is material

We question the purpose of designating an individual or committee to oversee a single type of investment risk. As mentioned, environmental risk is only one type of risk that a fund/mandate may be subject to. Asset managers must manage all risks which are material to the portfolio and as such we do not believe it makes sense to artificially create a separate line of accountability for a single type of risk. Instead, asset managers should be encouraged to integrate material environmental considerations into their existing risk management processes. We refer to our response to Question 1, where we emphasize that asset managers should not be required to view or add sustainability as a stand-alone function.

Question 5: MAS seeks feedback on the examples of tools and metrics that may be used by asset managers to assess the impact of environmental risk at both the individual investment and portfolio level.

We appreciate that the MAS in Paragraph 1.3 of the Guidelines already states that the examples of environmental risk management practices featured in the Guidelines are meant to be illustrative and neither prescriptive nor exhaustive. Nonetheless, the language of some parts of Section 4 of the Guidelines seems to go further than just providing examples, and instead prescribes specific requirements that asset managers are obliged to follow. For instance:

- Paragraph 4.3: asset managers "should apply risk criteria to identify sectors with higher environmental risk"
- Paragraph 4.3: asset managers "should develop sector-specific guidance"

We encourage the MAS to take a principles-based approach and keep to a minimum any prescriptive requirements relating to data and methodologies. Each asset manager will have its own systems, methodologies and data sources, which it will use and optimise in whatever manner that is most appropriate for its strategies and clients. More importantly, this is an ongoing process for sustainability and a one-size-fits-all approach would compromise innovation. Asset managers should therefore be given flexibility to determine whether and how it will incorporate environmental risk considerations into the internal processes for its investment and risk professionals. Please therefore consider presenting the requirements listed above (and anything similar) as illustrative examples only in the Guidelines.

Question 6: MAS seeks feedback on the examples of tools and metrics that may be used by asset managers to conduct portfolio risk management.

We are supportive of the high level requirement for asset managers to put in place appropriate processes and systems to monitor, assess and manage material environmental risk.

However we express reservation to the Scenario Analysis requirements under Section 5 of the Guidelines. Whilst we acknowledge that much of this section is drafted to provide examples and suggestions only, we are nevertheless concerned that such prescriptive language on an area as nascent as environmental scenario analysis would be inappropriate at this stage.

As an overarching point, our view is that, as an industry, we are simply not at a stage where prescriptive regulatory requirements on scenario testing and disclosure would be desirable to the fund manager or meaningful to the investor. For fund managers, being bound by overly-prescriptive regulations may significantly affect innovation and ongoing development of the tools and techniques necessary for scenario analysis. Whilst we have observed rapid development of methods of climate risk analysis over the past 10 years, there is currently no consensus and the variance in methods and underlying assumptions means that results can be highly subjective and lead to a wide range of possible outcomes for any given scenario. Furthermore, aggregating results of scenario analytics on a portfolio or fund level has significant constraints which in turn make it difficult to provide any reliable or decision-useful disclosures to investors. Consequently, we believe it is too early for regulation to mandate the performance and disclosure of scenario analysis. Gaps in data and methodologies will continue to narrow as the industry and policy makers work to address them, but in our view this requirement is premature.

In addition, we note that there are a number of points in Section 5 of the Guidelines where again there seems to confusion between portfolio-level investment risk as opposed to entity-level enterprise risk:

- The first sentence of Paragraph 5.3 suggests that scenario analysis should be used by asset managers for "strategic planning" purposes.
- Paragraph 5.5 requires asset managers to use the results of scenario analysis when reviewing their environmental risk management policies and practices.

Remembering that scenario analysis, as a tool of risk management, is to be performed on the investments of funds/mandates managed by an asset manager, it quickly becomes apparent that any information flowing from portfolio level scenario analysis should be irrelevant to an asset manager's strategic planning or its environmental risk management policies and practices at the corporate entity level. We would again ask the MAS to keep these concepts distinct, otherwise it could create significant issues for asset managers trying to implement the Guidelines (please refer to our response to Question 1).

For the same reason, in Paragraph 5.7 of the Guidelines we suggest clarifying that capacity building referenced here is in the context of managing environmental risk <u>as investment risk</u> to portfolio investments.

Question 7: MAS seeks comments on the expectation for assets managers to engage investee companies to manage the impact of environmental risk and support their transition towards sustainable business practices.

We support the policy objective of enhancing asset managers' stewardship activities as a lever to manage environmental risk of the portfolios that we manage, as it is consistent with BlackRock's own approach to engagement on sustainability.

We would however make a few suggestions to the following provisions of the Guidelines:

- Paragraph 6.1: Bearing in mind that stewardship principles are generally linked with equity ownership of companies, we suggest adding the underlined words: "*Asset managers<u>, through their equity holdings of investee companies,</u> are expected to exercise sound stewardship…*" This will make it clear that the stewardship obligations contained in the Guidelines are generally not intended to apply to non-equity holdings such as fixed income investments or Depositary Receipts (e.g. ADRs, GDRs) holdings, where voting rights may not apply.

  At this juncture we would flag that, even with equity investments there could be no voting rights or limited voting rights attached. For example, where a company has securities with different voting rights (i.e. weighted voting rights), the size of an asset manager's holding in such securities may not be proportionate to the level of voting rights that the asset manager can in fact exercise through its stewardship team. There are also regulations in some jurisdictions (in particular in emerging markets), which limit the ability of offshore investors to exercise their voting rights. In such circumstances the effectiveness of an asset manager's engagement can be significantly impacted, and we urge regulators to calibrate their expectations on asset managers' stewardship efforts accordingly.

- Paragraph 6.2(a): Identifying a company's environmental risk and opportunities is the responsibility of the board and management, not investors. Investors can engage with companies to better understand how company boards and management are addressing these risks and opportunities – we recommend re-wording this provision accordingly.

- Paragraph 6.2(b): We are cautious with the word "influence". Corporate behaviour and the decisions that drive it is under the purview of the board and management, not investors. We therefore suggest replacing with the word "encouraging".

- Paragraph 6.3: Given various acting-in-concert and disclosure requirements across jurisdictions, we suggest inserting wording that specifies that asset managers have the discretion to choose whether to engage collectively and in a manner which is not inconsistent with relevant rules and regulations.

Question 8: MAS seeks comments on the proposed form of disclosure of environmental risk by an asset manager.

We welcome the balanced approach the MAS is taking in not imposing prescriptive disclosure requirements. As a large asset manager committed to our presence in Singapore and globally, BlackRock as an investment adviser and product provider is subject to regulation in a number of jurisdictions in addition to Singapore. These include relevant EU regulations governing UCITS ranges which we distribute globally and disclosure practices aligned with US SEC requirements (e.g. Form ADV) in respect of mandates and separate accounts. As such we consider it imperative that regulation provides flexibility and avoid conflicting requirements across jurisdictions, in order to ensure a level playing field for product providers and also enhance comparability for investors. We therefore encourage the MAS to ensure the Guidelines are not inconsistent with regulatory developments overseas or globally accepted frameworks.

That said, however, we are concerned that the current drafting of Section 7 of the Guidelines makes it extremely unclear what disclosure obligations are in fact being imposed on asset managers.

Paragraph 7.1 is especially problematic. There is clearly confusion of portfolio-level investment risk with entity-level enterprise risk. We feel that the use of the wording "*stakeholders, including existing and potential customers*" is inappropriate as it is ambiguous. Again we return to the aim of the Guidelines, which is to enhance resilience of managed funds/mandates; in this context then, we submit that Paragraph 7.1 needs to be very specific and explicitly state that disclosure obligations therein are targeted at investors of managed funds/mandates. This clarity is crucial as disclosure intended for investors is very different from disclosure intended for other types of stakeholders.

Paragraph 7.1 also encourages asset managers to disclose the potential impact of material environmental risk, including quantitative metrics, to customers. We wish to emphasize that disclosure on impact is necessarily portfolio-specific. The extent, format and contents of disclosure need to be driven by an assessment of relevance and materiality to the specific investment strategy in question. In particular, we believe quantitative metrics associated with environmental risk of managed assets are only meaningful at the product level – it is at the product level that such metrics could be useful to investors as they compare and evaluate products. We therefore recommend removing this expectation if the MAS' intention is that the Guidelines will form conduct requirements, separate and distinct from product requirements (which we would agree with). Alternatively if the MAS moves forward with including product requirements, we would ask that it be made clear by replacing the relevant sentence with: "*Asset managers are encouraged to provide fund-/mandate-level disclosure of the potential impact of* *material environmental risk to that fund/mandate, including where relevant and considered decision-useful for investors quantitative metrics such as exposure to sectors with higher environmental risk.*"

The last sentence of Paragraph 7.1 suggests that an asset manager's disclosure may be consolidated at the group or head office level. We would ask the MAS to clarify whether this is meant to provide asset managers with flexibility to rely on global processes/policies to demonstrate compliance with the various requirements of the Guidelines (please refer to our response to Question 1), in which case we would welcome the approach and encourage the MAS to make this clearer. The use of the word "consolidated" here raises confusion as it seems to suggest some aggregated metric at the enterprise level, which we believe would be irrelevant for investors of managed funds/mandates. As we discuss in the preceding paragraph, we believe quantitative metrics associated with environmental risk are only meaningful at the product level; by extension, we firmly believe that aggregation of portfolio-level metrics would not yield any useful information about the portfolio or the asset manager. We are strongly of the view that disclosure to investors needs to be meaningful and decision-useful, and as such we urge policymakers to consider quantitative metrics only at the portfolio level.

The ambiguity of Paragraph 7.1 described above is not cured by Paragraph 7.2, because the TCFD recommendations attempt to tackle disclosure both at entity level and portfolio level and, in our view, even the TCFD recommendations are currently open to debate and subject to differing interpretations. Extreme caution is therefore needed before taking a voluntary and evolving framework (TCFD) and prescribing it in the form of regulatory requirements on asset managers. We would therefore suggest changing "*Asset managers should take reference from international reporting frameworks, including…*" to "*Asset managers <u>may consider taking</u> reference from international reporting frameworks, including…*"

In addition, we suggest adding the following to Paragraph 7.2 to explicit acknowledge that the TCFD is merely an example, "*For the avoidance of doubt, the above framework is for reference only. MAS recognizes that there is no one-size-fits-all approach to the contents and format of disclosure, and ultimately asset managers should ensure that the disclosure provided to investors is meaningful and appropriate for a fund/mandate they manage, taking into account the nature of the investment objectives and strategies of the relevant fund/mandate*."

Limitations on use and disclosure of environmental metrics

At this juncture, we would like to emphasize that quantitative metrics on environmental factors, even at the portfolio level, is currently subject to significant limitations. Within the investment and risk management processes, one of the key constraints of using and reporting on environmental metrics such as carbon emissions is that they are dependent on disclosure by the issuer companies. Particularly in the emerging markets context, the level of disclosure by corporates is generally low and not necessarily mandated by regulators. Even though external vendors, such as MSCI ESG, Sustainalytics, Bloomberg, etc., provide carbon emissions data, in cases where companies did not disclose this data themselves, data providers apply their own methodologies to estimate companies' carbon emissions. The level of reporting for other environmental metrics depends in large part on regulatory requirements in the relevant jurisdiction.

Even where companies do provide environmental metrics, whether voluntarily or required by regulation, they may do so with varying degrees of accuracy. For example, definitions of reporting boundaries may differ from company to company; a company may choose to only include emissions from plants in one location and infer company-wide emissions based on these numbers, whilst the emissions in other locations may be much higher.

Furthermore, as discussed in our response to Question 6, climate/environmental scenario analytics are still at a developing stage as they require access to underlying data (e.g., product data for fossil fuel-related companies), modeling capabilities to make use of the underlying data (e.g., how to link production data to scenario data to potential investment impact), and technological infrastructure to embed these analytics alongside existing investment information to inform processes and decision-making. These ingredients require resources in both time and money as well as expertise to make use of and implement the data. Presently there are still significant gaps that need to be filled in terms of availability, quality and consistency of both data and methodologies before such sophisticated analytics can become meaningful and reliable across a broad range of portfolios.

We would therefore urge the MAS to avoid imposing prescriptive requirements on the disclosure of quantitative information. At the present stage of development in sustainability, asset managers should be provided flexibility to report on sustainability metrics where they consider it appropriate for informed decision-making by investors as to the products they wish to invest in.

Question 9: MAS seeks comments on any aspects of the Guidelines that have not been covered in earlier questions.

As mentioned in our response to Question 7, we believe there should be a clear distinction between conduct regulation (which is the primary focus of the Guidelines) and product regulation. Thus we do not recommend adding any product requirements to the Guidelines.

That said, we believe that given the inter-connected nature of the different parts of the ESG/sustainability picture, natural next steps (or concurrent steps) for the MAS should include a consideration of sustainable products.

Today there is already a range of sustainability-related products but the lack of consistency around sustainable investing terminology leads to confusion, which in turns dampens investor confidence in these products. From a policy standpoint, there is a need for industry and policymakers to work together to achieve clarity. We strongly believe that a key driver will be to converge around a system of high-level categories of sustainable investing strategies, which is underpinned by transparent data at the product or portfolio level. This will enable both regulators and asset owners to better understand sustainable products and ensure they remain true to label. This type of industry level alignment and standardisation would, in our view, go far in reducing investor confusion around sustainable investing and in turn minimise the potential for greenwashing.

We encourage the MAS to consider BlackRock's recommendations in this topic, as detailed in our ViewPoint dated January 2020 and entitled *Towards a Common Language for Sustainable Investing*. BlackRock currently adopts the categories "screened", "ESG" and "impact".

We note that there are also significant industry-led initiatives in this space:

- In October 2019, the Institute of International Finance ("IIF") convened a group of financial institutions including banks, insurers, and asset managers to discuss the need for a product taxonomy. Their report, *The Case for Simplifying Sustainable Investment Terminology*, identified three key categories: exclusion, inclusion, and impactful.
- In July 2020, the Investment Company Institute ("ICI"), a US-based fund industry association, published *Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction*, in which ICI identified three key categories of "ESG funds": ESG exclusionary investing, ESG inclusionary investing, and impact investing. The ICI board members – which represent more than 50 asset managers and directors of mutual funds – unanimously approved this report.

As can be seen there is a lot of commonality and overlap amongst the three naming conventions outlined above. In particular, both the ICI and the IIF reports underscore the broad industry recognition of the need for a common language and support for a product taxonomy that provides transparency to help end investors differentiate among products and choose the right product for their investment needs. For the MAS, endorsing a market-led product taxonomy would provide clarity and enable the MAS to identify and mitigate specific areas of concern.

The papers mentioned above can be found here:

- https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-towards-a-common-language-for-sustainable-investing-january-2020.pdf

- https://www.iif.com/Publications/ID/3633/The-Case-for-Simplifying-Sustainable-Investment-Terminology
- https://www.ici.org/pdf/20_ppr_esg_integration.pdf

Question 10: MAS requests for examples of sound risk management practices currently implemented by asset managers, which would meet the expectations in the Guidelines.

Our firmwide ESG integration statement articulates BlackRock's definition of ESG integration and our firm-wide investment approach, firm-wide governance structure, and portfolio manager accountability (available at this link: https://www.blackrock.com/corporate/literature/publication/blk-esg-investment-statement-web.pdf). BlackRock also discloses our firm's approach to ESG incorporation through comparable industry relevant reporting frameworks, such as the Principles for Responsible Investment (PRI).

Question 11: MAS seeks comments on the proposed implementation approach, including the proposed transition period of 12 months.

We encourage the MAS to consider an implementation timeline that would not be out of sync with the developments in other jurisdictions, most notably the EU, UK and other Asia Pacific jurisdictions such as Hong Kong.